CRUX ASSET MANAGEMENT

Fund Manager: Richard Penny

TM CRUX UK Core Fund

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Fund Performance

During Q1 2022 the TM CRUX UK Core Fund returned 1.3% versus -4.8% for its performance comparator, the IA UK All Companies sector.* The B Accumulation share price was 272.44 on the 31st March 2022. At the turn of the year the continuing prospect of rising interest rates drove sector performance, on the one hand improving the prospects for banks and insurance, on the other, impacting the outlook for growth stocks leading to a switch to value sectors, including tobacco and telecoms.

*Source: FE 31.12.21-31.03.22 Bid-Bid in GBP, TR, net income re-invested.

For over a decade growth investing has significantly outperformed value investing at a time when interest rates fell to artificially low rates. The stock performance of growth businesses during this period has been exceptional particularly in the US, but it is also true that investors have paid progressively higher prices for the favoured companies. With interest rates now rising, the prices paid for growth assets may now prove untenable, with investors having locked in low rates of return for long periods.

The preponderance of trend chasing thematic funds and a greater participation of less sophisticated retail investors, at a time when growth funds attracted ever more capital, and bought more of the same stocks, may have served to fuel a momentum trade that must now partially unravel under rising interest rates.

Growth and business franchise will continue to be essential investment factors but rising interest rates must mean that price becomes a more critical factor. The other major investment factor during the period was the Russian invasion of the Ukraine. As well as a humanitarian crisis, this has exacerbated increases in commodity prices such as coal, crude oil and natural gas where Europe is heavily dependent on Russian supply. The extent of these commodity increases and their effect on food utility and motoring costs in tandem with rising interest rates will lead to significant pressure on the UK consumer outlook.

The combined effect of rising rates and commodity prices have been positive for oil and gas, mining, defensive and banks shares. Share prices of the more cyclical sectors such as industrials, retail and housing have been heavily hit. These sector biases were broadly positive for the fund, which is overweight banks and defensives and underweight cyclical stocks. Stock performance mirrored the big sector themes. Winners came from the banking sector with HSBC and Standard Chartered standout performers. The increase in commodity prices were positive for Shell, mining royalty company Anglo Pacific and copper miner Antofagasta.

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Attribution Stock Level Q1 2022

Top 5 Contributors	Bottom 5 Contributors
Standard Chartered +0.94	Barclays -0.90
Anglo Pacific Group +0.92	AB Foods -0.88
Shell +0.86	Sage -0.71
HSBC +0.84	Next -0.63
British American Tobacco +0.79	Cazoo Group -0.57

Source: Stat Pro

Transactions

During the quarter we switched our main oil exposure from BP to Shell. Shell's exposure to liquified natural gas and deep-water oil, gives the business higher gearing into current trends of increasing oil and gas prices, providing a stronger business case. This has proved to be a fortuitous switch as BP has suffered more post switch from its Russian exposure.

Throughout the quarter we completed the sale of Burberry, the shares at this point had held up well when other more domestically focussed retailers had been particularly poor, we used the proceeds to start a position in Glencore.

We also added holdings in FD Tech and Inchcape to the Fund. First Derivatives Technology is a Northern Irish IT services business with a substantially undervalued US software subsidiary. We believe the potential of this is substantially overlooked by UK investors. The investment case was further reinforced asthe KX software division which produces Time series database software for investment banks has recently signed a high impact partnering deal with Microsoft Azure. We believe this division based in Palo Alto, whilst not appreciated by the UK market is comparable to US companies such as Confluent Inc, Databricks and Mongo DB. Another new position this quarter was Inchcape. Inchcape is transitioning from a forecourt motor retailer to a global distributor of vehicles. The change of business model is positive for return on capital and the business looks to have strong medium-term growth at an attractive price.

Outlook

Long term indicators such as the CAPE (cyclically adjusted Price Earnings) ratio suggest that the UK is cheap and offers potential double digit returns from today's valuation. Such measures are not great short-term indicators and there can always be chances to buy the market short term. On a relative basis, the UK underperformed global peers post the 2016 referendum vote, moving to a thirty year low against Global equities. The rise in interest rates and increasing commodity prices should mean that the UK is not only cheaper than Global markets but benefits from stronger catalyst for its overweight "value sectors"; banks,oil and gas and mining